

NOMINATION OF EDWIN J. GRAY

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN
AFFAIRS
UNITED STATES SENATE
NINETY-EIGHTH CONGRESS
FIRST SESSION

ON

THE NOMINATION OF EDWIN J. GRAY TO BE A MEMBER OF THE
FEDERAL HOME LOAN BANK BOARD UNTIL JUNE 30, 1983

FEBRUARY 23, 1983

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Committee on Banking, Housing, and Urban Affairs



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(III)

NOMINATION OF EDWIN J. GRAY

WEDNESDAY, FEBRUARY 23, 1983

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING
AND URBAN AFFAIRS,
Washington, D.C.

The committee met, at 11:15 a.m., in room 538, Dirksen Senate Office Building, Senator Jake Garn (chairman of the committee) presiding.

Present: Senators Garn and Hecht.

OPENING STATEMENT OF CHAIRMAN GARN

The CHAIRMAN. The Banking Committee will come to order.

The purpose of the hearing this morning is on the nomination by the President of Mr. Edwin John Gray to be a member of the Federal Home Loan Bank Board, and we have with us this morning to introduce Mr. Gray our most distinguished new colleague from California, Senator Wilson, and I might take advantage of this situation on the record, which I have not had the opportunity to do before publicly, to congratulate my colleague and say how pleased I am that Senator Wilson is a new Senator.

The Senator and I served together as mayors. We were on the board of directors at the National League of Cities together and sat in a lot of dull, boring meetings for several years. The only thing I couldn't understand is how he could be a mayor so long. I got out of there earlier.

But nevertheless, Senator Wilson, I am very pleased. I'm sorry you're not a member of this committee and hope that in 2 years that can be rectified and we can have you as a member of the Banking Committee. Thank you for coming.

STATEMENT OF PETE WILSON, U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Thank you very much, Mr. Chairman.

I'm most grateful for your kind words and for your greeting. As to the length of time that it took me to get here, I'll simply say some of us are slower learners than others. However, I did make an early effort.

In any case, I'm delighted to be here today and to have the privilege of introducing to you and to the committee a very distinguished Californian. I hope this committee will not hold it against him that he is a long-time personal friend. His credentials I think speak for themselves. It is an appointment of which the President can be proud.

Ed Gray has for many, many years been associated with the savings and loan and housing industry. He has served President Reagan both in his capacity as Governor of California and also since his election as President.

In San Diego, he has been with a major savings and loan institution, one of the largest and one of the most rapidly growing, one that has provided the assistance to any number of Californians so that they could qualify for the pride of homeownership.

He is held in the greatest esteem in the San Diego business community and he's also been, I might add not at all parenthetically, a very distinguished community leader. He is a past president of the San Diego County Taxpayers Association, the San Diego Business and Professional Club. He has been a director of the State Taxpayers Association and has served his community as a director, a fundraiser for the symphony, for the Old Globe Theatre, and for any number of other philanthropic causes, and in every instance has done the job that's been asked of him and more and with the result that, he also being a slow learner, has found that they keep coming back to him and asking him to do more.

But it is in connection of his experience with the savings and loan industry and the public policy background which he brings to this that I think he is a particularly desirable nominee. I can only say that I think that he has the potential to give continued distinguished public service and I think that as he will tell you himself this is an opportunity he welcomes. It is an opportunity for him to continue what has been a career life work of trying to assist those in need of housing to find it.

So he's knowledgeable both from the standpoint of his profession, from the standpoint of policy issues that are involved, and has by prior performance indicated a great capacity for public service, and I'm privileged this morning to introduce him to you, Mr. Chairman, and to the committee and could not urge too strongly your vote of confirmation of the President's nomination.

The CHAIRMAN. Thank you very much and we would like you to know that you're welcome to stay if you would like to, but we also understand if you have to leave that there are other committees and other assignments going on. So it's your choice, whatever you would like to do.

Senator WILSON. Thank you, Mr. Chairman. I will leave Mr. Gray to your devices and go and try to do something for the taxpayers. Thank you.

Mr. GRAY. Mr. Chairman, I would like to thank the Senator very much for his very kind remarks.

The CHAIRMAN. Mr. Gray, while you're standing, if I could have you sworn.

[Whereupon, the witness was duly sworn.]

The CHAIRMAN. I would ask unanimous consent that a statement by Senator Cranston be placed in the record as though read.

[Complete statement of Senator Cranston follows:]

STATEMENT OF SENATOR ALAN CRANSTON

I'm pleased that the Senate Banking Committee is today holding a hearing on the nomination of Edward J. Gray to become a

member of the Federal Home Loan Bank Board. I'm sorry that my schedule does not allow me to present this statement personally to the committee.

Mr. Gray brings with him an impressive record of service and expertise through his work as an executive with Great American Federal Savings & Loan Association in California and as Director of the White House Office of Public Policy Development in the Reagan administration. Through his experience in the private and public sector he has become a knowledgeable and effective advocate for thrifts at the institutional and industry level, and at the broader national economic policy level. Mr. Gray's work to bring the concerns of the thrift industry into focus at the White House aided the successful development of the major financial institution restructuring legislation we passed last year.

I look forward to the committee's thorough review and consideration of Edwin Gray's nomination.

The CHAIRMAN. Please proceed if you have an opening statement.

STATEMENT OF EDWIN J. GRAY

Mr. GRAY. Thank you very much, Mr. Chairman.

Mr. Chairman, it is a very special honor for me to appear today before you and other distinguished members of this committee.

While this occasion serves as the focal point in the confirmation process for me, it also provides me the opportunity to compliment you and your colleagues on the committee for taking the initiative and providing the leadership in 1981 and 1982 to develop the Garn-St Germain Depository Institutions Act of 1982, and to assure the enactment of that historic legislation.

Without your determination, Mr. Chairman, and the commitment of the members of this committee to guide the comprehensive proposal through the legislative process, there would be no such act on the books today.

I believe that the members of the committee should know that, while you were undertaking your work here, I was involved in a parallel effort as a member of the administration.

After working nearly seven years as a senior officer of a savings institution before joining the White House staff in early 1981, I had become increasingly aware of the ongoing difficulties facing the thrift industry. I also recognized the growing need to lift the burden of many constraints which—while they may have served a useful public purpose in a previous era—were strongly and unfavorably affecting the thrifts' ability to compete effectively in the rapidly changing financial services environment.

Even in those early days of the new administration, it was clear to me that if the thrift industry were to survive in the long term, substantial restructuring would be needed in both the asset and liability bases of the industry.

Serving as Deputy Assistant to the President and Director of the White House Office of Policy Development—which is an arm of the White House responsible for assisting in the development and coordination of domestic policy, and which also serves as the staff to the Cabinet councils—in that capacity, I set forth to establish such a restructuring effort as an administration priority.

In addition, while working closely with the Chairman of the Federal Home Loan Bank Board, and serving as a member of the Financial Institutions Working Group of the Cabinet Council on Economic Affairs, I had the opportunity to play a key part in the evolving process which led to Presidential support for thrift industry restructuring as well as other provisions which are now embodied in the Garn-St Germain Act.

Because of the joint pursuit of similar goals by this committee, the Congress, the Bank Board and the administration, the thrift industry now has substantially the kind of elbow room it needs, not only to survive in the current financial services arena but, more importantly, to continue to serve in areas of responsibility originally assigned it a half century ago—to promote thrift and homeownership.

In my opinion, the flexibility provided by the new legislation will enable thrifts more effectively to weather future stormy seasons of economic instability, and not to be reduced to relative impotence in serving the needs of housing finance, as the industry was in 1981 and in the first part of 1982. The opportunity for thrifts to engage in more diverse areas of lending and investment, still in a limited manner; the ability to compete more equitably and effectively for investor funds at market rates; the regulatory authority to resolve difficulties of a supervisory nature even more efficiently; and the ability to provide capital assistance to institutions as appropriate, all have combined to provide thrifts the opportunity to be better equipped to improve their financial and market positions in today's competitive environment.

On the other hand, the legislation is not a panacea. An improving economy as manifested by substantially lower inflation and interest rate levels is, very clearly, the most critical immediate ingredient for a healthier thrift industry.

Still, Mr. Chairman, the legislation this committee played such an important role in fashioning, must be acknowledged as one of the most significant and welcome events to occur in the history of the thrift industry. From a public policy perspective, it is already serving the interests of the American people and will do so to a far greater extent in the future. For the first time, savers at depository institutions are able to receive market rate interest on their funds. Savings institutions now have the ability to attract the magnitude of funds necessary to meet their lending and operation needs, and to begin the process of bringing greater diversity to their lending portfolios. Just as important, the range of choices now available to savings institutions in the way they do business is significantly greater. I believe that in the long term, these broader options will improve the overall financial structure in this country. More specifically, the greater range of choices will enable savings institutions to continue to emphasize what they know and do best—housing finance.

On that subject, I want to state very clearly that I am deeply committed to housing and homeownership. The thrift industry has played a monumental role in making us a nation of homeowners through the years. Homeownership is a goal American families have aspired to for generations; it is part and parcel of what we sometimes refer to as the American dream. Attainment of home-

ownership is a stabilizing force in our free way of life because it gives our people a stake in the system.

As a member of the White House staff, I helped establish, and drafted the charter for, the President's Commission on Housing which delivered its report last spring. As a member of the Federal Home Loan Bank Board, I intend to continue to work in behalf of a strong and sound system of housing finance in this country.

Finally, and on a more personal level, I am, of course, honored that the President has chosen to nominate me to serve on the Federal Home Loan Bank Board. Much of my career over the past 16 years—as a government employee at the State and Federal levels—has been in the public policy arena, both in developing and articulating policy and policy-related goals. The other side of that career has been as a senior executive at a savings and loan institution, where I have had the opportunity to participate closely in the management and decisionmaking process with my colleagues.

I hope you will agree that this combination of public policy orientation and executive level experience in the thrift industry can enable me to serve the public policy needs of the Board to which I have been nominated. That is my desire and my purpose.

Thank you very much. I am willing to respond to any questions.
[Biographical sketch follows:]

STATEMENT FOR COMPLETION BY PRESIDENTIAL NOMINEES

Name: Gray Edwin John
(LAST) (FIRST) (MIDDLE)

Position to which nominated: Member, Federal Home Loan Bank Board Date of nomination: February 17, 1983

Date of birth: 22 8 35 Place of birth: Modesto, California
(DAY) (MONTH) (YEAR)

Marital status: Married Full name of spouse: Monique Marie-Francoise Rife Gray

Name and ages of children: Nathalie Anne Gray 19 years of age
Laure-anne Nicole Gray 15 years of age

Education:	Institution	Dates attended	Degrees received	Dates of degrees
	<u>Modesto High School</u>	<u>1950-1953</u>		
	<u>Univ. of the Pacific</u>	<u>1953-1954</u>		
	<u>Modesto Junior College</u>	<u>1954-1955</u>		
	<u>Calif. State Univ. at Fresno</u>	<u>1955-1957</u>	<u>BA</u>	<u>June 1957</u>
	<u>Univ. of Barcelona, Spain</u>	<u>1961</u>		
	<u>Graduate School of Savings & Loan, Indiana University</u>	<u>Summer-1979</u>		

Honors and awards: List below all scholarships, fellowships, honorary degrees, military medals, honorary society memberships, and any other special recognitions for outstanding service or achievement.

Outstanding Representative - N. Calif. Student Congress, 1952

Class Speaker, 1953 graduating class, Modesto High School.

Speech (Debate) Scholarship to Univ. of Pacific, 1953-54

Resolution of the Federal Home Loan Bank Board, No. 82555, Aug. 11, 1982
See attachment

Memberships: List below all memberships and offices held in professional, fraternal, business, scholarly, civic, charitable and other organizations.

Organization	Office held (if any)	Dates
San Diego Chamber of Commerce	Director, Member Exec. Committee	1982-Present
San Diego Taxpayers Association	Past President/Director	1974-Present
San Diego Symphony Orch. Assn.	Past Director/Member Exec. Committee	1974-79
Old Globe Theatre of San Diego	Past Director	1978-80
California Taxpayers Assn.	Past Director/Member Executive Committee	1976-80
San Diego Business & Prof. Club	Past President	1977
San Diego Press Club	Charter Member	1974-Present
Public Relations Society of Amer.	Member	1973-Present
Sigma Delta Chi, Prof. Journ. Soc.	Past Member	1968-1979
Legislative Policy Committee, U. S. League of Savings Assns.	Member	1982-Present

Employment record: List below all positions held since college, including the title or description of job, name of employment, location of work, and dates of inclusive employment.

KML, Fresno, California, Newsmen, 1957-1960

United Press International, Madrid, Spain, Staff Writer/Day News Editor, 1961-63

Public Relations Staff Supervisor, Pacific Telephone, Sacramento, 1963-66

Employee Information Supervisor, Pacific Telephone, San Francisco, 1967

Assistant Press Secretary, Office of the Governor, Sacramento, 1967-68

Associate Press Secretary, Office of the Governor, Sacramento, 1968-72

Governor's Press Secretary, Office of the Governor, Sacramento, 1972-73

Vice President & Dir. of Public Affairs, San Diego Federal S&L Assn, 1973-79

Senior Vice Pres., San Diego Federal S&L Association, 1979-80

Campaign Press Secretary, Reagan for President, 4-80 until 8-80

Deputy Chief of Staff, Reagan & Bush Committee, 8-80 until 11-80

Associate Director, Office of Policy Coordination, Presidential Transition 11-80 until 1-20-81

Deputy Assistant to the President and Director of the White House Office of Policy Development, 1-21-81 until 2-28-82

Deputy Assistant to the President and Director of the White House Office of Policy Information, 3-1-82 until 8-15-82.

First Vice President and Manager of the Executive Affairs Group, Great American Federal S&L Assn., San Diego, 8-15-82 until Present

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Government
experience:

List any experience in or direct association with Federal, State, or local governments, including any advisory, consultative, honorary or other part-time service or positions.

Member and Senior Member of Gov. Reagan's Staff, Office of the Governor, Sacramento, California, 1967-1973

President of San Diego Taxpayers Assn., 1978-80, and Member of the Board of Directors and Executive Committee of California Taxpayers Association, 1976-1980 (Both organizations dealt directly with local/state governments). I presently (1982-now) am a member of the Board of Directors and a member of the Executive Committee, heading the State and National Government Division of the San Diego Chamber of Commerce

Associate Director, 1980-81 Presidential Transition. as Associate Director, Office of Policy Coordination.
Senior Member of White House Staff, Jan. 21, 1981-Aug. 15, 1982.

Published
writings:

List the titles, publishers and dates of books, articles, reports or other published materials you have written.

Political
affiliations
and activities:

List all memberships and offices held in and services rendered to all political parties or election committees during the last 10 years.

Citizens for Reagan, 1975-76.
Larsen for School Board, 1977 (San Diego)
Cleator for City Council, 1979 (San Diego)
Reagan for President, 1979-1980
Reagan & Bush Committee, 1980
Cleator for Mayor Committee, 1983 (San Diego)

Political

contributions:

Itemize all political contributions of \$500 or more to any individual, campaign organization, political party, political action committee or similar entity during the last eight years and identify the specific amounts, dates, and names of the recipients.

Citizens for Reagan, 1976 (between \$500 and \$1,000)

Reagan for President, 1980 (between \$500 and \$1,000)

Qualifications:

State fully your qualifications to serve in the position to which you have been named.
(attach sheet)

See attachment

Future employment
relationships:

1. Indicate whether you will sever all connections with your present employer, business firm, association or organization if you are confirmed by the Senate.
With the exception of maintaining loans already held by my present employer, as well as a NOW checking account, I will sever all other connections with same if I am confirmed by the Senate.

2. As far as can be foreseen, state whether you have any plans after completing government service to resume employment, affiliation or practice with your previous employer, business firm, association or organization.

I have not such plans.

3. Has anybody made you a commitment to a job after you leave government?

No.

4. Do you expect to serve the full term for which you have been appointed?

I expect to serve the full term, yes.

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Potential conflicts
of interest:

1. Describe any financial arrangements or deferred compensation agreements or other continuing dealings with business associates, clients or customers who will be affected by policies which you will influence in the position to which you have been nominated.

With the exception of maintaining loans already held by my present employer, as well as a NOW checking account, there will be no other financial arrangements or any deferred compensation agreements with present employer, upon confirmation by the Senate.

2. List any investments, obligations, liabilities, or other relationships which might involve potential conflicts of interest with the position to which you have been nominated.

There will be no investments, obligations, liabilities or other relationships which will cause potential conflicts of interest.

3. Describe any business relationship, dealing or financial transaction (other than tax-paying) which you have had during the last 10 years with the Federal Government, whether for yourself, on behalf of a client, or acting as an agent, that might in any way constitute or result in a possible conflict of interest with the position to which you have been nominated.

None

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4. List any lobbying activity during the past 10 years in which you have engaged for the purpose of directly or indirectly influencing the passage, defeat or modification of any legislation at the national level of government or affecting the administration and execution of national law or public policy.

I assisted the U. S. League of Savings Associations in its efforts to encourage passage of the Garn-St Germain Depository Institutions Act of 1982 -- after having resigned from the White House Staff.

5. Explain how you will resolve any potential conflict of interest that may be disclosed by your responses to the above items.

Other than paying down loans already held by my present employer, I will sever all other ties with my present employer, upon confirmation by the Senate.

Civil, criminal and
investigatory
actions:

1. Give the full details of any civil or criminal proceeding in which you were a defendant or any inquiry or investigation by a Federal, State, or local agency in which you were the subject of the inquiry or investigation.

See addendum.

2. Give the full details of any proceeding, inquiry or investigation by any professional association including any bar association in which you were the subject of the proceeding, inquiry or investigation.

None

February 17, 1983

Addendum to Page 6, Item 1

Yes. In July, 1978, Julie Fisher, a former San Diego School Board member sued Yvonne Larsen, the Copley Press (San Diego Union and Evening Tribune newspapers), myself and others for defamation (4th Civ. No. 24990: San Diego Superior Court No. 420137). The action was based on statements made during a 1977 political campaign in which Larsen defeated Fisher in the school board race. I was among those sued because I helped draft two campaign speeches on Larsen's behalf which Fisher alleged were defamatory.

In May, 1981, the Trial Court (San Diego Superior Court) granted defendants' motion for summary judgment and judgment was entered thereon. On December 24, 1982, the California Court of Appeal held that Fisher was entitled to go to trial based on two statements made by Larsen I helped draft. The California Supreme Court is currently being petitioned to grant review of the Court of Appeal decision.

Personal Statement Of Qualifications As Member of Federal Home Loan Bank Board

For seven and one half of the last 15 years, I have held substantial public policy-related positions in government, at the state and federal level. During virtually the remainder of that period, I have served in a senior management and corporate policy development role at a major savings and loan institution.

As a member of the White House staff, where I served as Deputy Assistant to the President and Director of the White House Office of Policy Development (OPD), I managed the day-to-day activities of a 45 member staff whose responsibility it was, and is, to assist in the formulation of domestic and economic policy, to coordinate the functions of the Cabinet Councils, and to prepare the final issue papers for Presidential decision-making on a wide range of subjects.

In my role as Director of OPD, I also helped establish, and served as the principal White House liaison with, the President's Commission on Housing. I also was a member of the Working Group on Financial Institutions of the Cabinet Council on Economic Affairs during my entire tenure in the White House.

As the Director of OPD, and later as the Director of the White House Office of Policy Information, I worked closely with the Federal Home Loan Bank Board in the development of legislation to restructure the asset base of thrift institutions. I also was a full participant in all of the policy considerations by the Cabinet Council on Economic Affairs of that legislation which ultimately became known as the Garn-St Germain Depository Institutions Act of 1982, and was enacted into law on October 15, 1982. I also followed closely the work of the Depository Institutions Deregulation Committee, chaired by the Secretary of the Treasury.

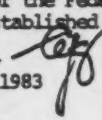
As a savings institution executive for some seven years, I have come to know many of the problems the savings and loan industry encounters, both at the institution and the industry level.

Since returning to the private sector from the White House last August, I have been First Vice President and Manager of the Executive Affairs Group at Great American Federal Savings and Loan Association in San Diego, a \$4.5 billion institution with 139 offices throughout California. In that position, I have served as Secretary of the Executive Committee of the Association, and I have worked very closely with the Chairman and Chief Executive Officer on a wide range of matters of key policy and operations importance to the Institution.

Two months ago, I was keynote speaker before the Thrift Outlook Conference, held under the auspices of the Federal Home Loan Bank System, in Washington D. C. I have served on a number of California Savings and Loan League and U. S. League of Savings Institutions committees, including the Energy Committee and the Legislative Policy Committee of the U. S. League.

I believe the public policy orientation borne of my government experience, and my years as a senior executive of a well-run savings and loan institution, as well as a number of positions of civic leadership I have held through the years, all combine to offer a depth of perspective and judgment which can assist the needs and objectives of the Federal Home Loan Bank Board, an independent regulatory agency established by the Congress.

Edwin J. Gray
February 17, 1983



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FEDERAL HOME LOAN BANK BOARD

No. 82-555

Date: August 11, 1982

Whereas, Edwin J. Gray has exhibited outstanding knowledge of, and concern for, the thrift and housing finance institutions of the United States, and has been effective in communicating his knowledge and concern on behalf of the public interest, and

Whereas, Edwin J. Gray has been a superb communicator of the role of thrift institutions and housing finance in the American system, providing information to the President and other members of the Administration concerning conditions in the thrift industry and the importance of maintaining a strong thrift industry to public welfare, and has been an effective communicator of Administration policy to the Federal Home Loan Bank Board and the thrift industry, and

Whereas, Edwin J. Gray has worked tirelessly to see that legislation and Administration policy have been directed toward the highest public interest in regard to thrift industry decisions, and

Whereas, Edwin J. Gray has been a major architect of and advocate for major legislation which would provide effective restructuring to allow the thrift industry to continue to serve the American public, and

Whereas, Edwin J. Gray has always conducted himself in the highest professional manner, providing valuable counsel and assistance to the Federal Home Loan Bank Board, and

Whereas, Edwin J. Gray has tirelessly and selflessly given of his own time and talent to further the cause of good public policy,

Now, Therefore, Be It Resolved, that the Federal Home Loan Bank Board and its staff herein publicly express admiration for and appreciation of Edwin J. Gray, an effective spokesman for the President of the United States, and a public servant of the highest calibre. The Board has been a more effective and efficient agency because of Mr. Gray's activities.

(signed)

Richard T. Pratt
Chairman

signed

Jamie Jay Jackson
Board Member

The CHAIRMAN. Thank you very much.

I understand that in order to avoid any potential conflicts of interest that you will resign your position at Great American Savings & Loan Association in San Diego if you're confirmed by the Senate. Is that correct?

Mr. GRAY. Yes, I will.

The CHAIRMAN. I also understand that Great American holds a mortgage on your residence in San Diego which was issued to you at a preferential employee rate and when you resign the rate will revert to the market rate prevailing when you received it, and that is, I understand, a policy of departing employees for anyone at that thrift institution. Is that correct?

Mr. GRAY. That is correct.

The CHAIRMAN. I understand that you are partially vested in an employee-controlled pension plan at Great American, the nature and terms of which you have fully disclosed to the committee, which will provide a small benefit to you beginning at age 65. You will receive a statement from Chairman Pratt of the FHLBB, in accordance with the Ethics in Government Act, that your interest is not so substantial that it would affect the integrity of your service as a Board member. Is that correct?

Mr. GRAY. That is also correct.

The CHAIRMAN. And if confirmed, would you agree to appear before this committee and other committees of the House and the Senate?

Mr. GRAY. I certainly will.

The CHAIRMAN. Mr. Gray, part of the Garn-St Germain Act provides for net worth assistance for savings banks and loan associations. Conferees on this committee worked out a careful compromise between the two versions so that the FDIC and the FSLIC would provide 50, 60, or 70 percent assistance based on operating losses during a prior period.

In December the FDIC started their net worth assistance program for savings banks at those levels.

It is my understanding that the FSLIC, however, has issued rules to provide only 25, 30, and 35 percent net worth aid to S&L's which need help.

What is your opinion of that departure from what we agreed to in the compromise and would you review or support a review of FSLIC's program?

Mr. GRAY. I certainly will. I have not been privy to any of the information which has led in the direction of rulemaking at the Federal Home Loan Bank Board. I understand that there is a difference in approach between the FSLIC and the FDIC. I would say, among other things, that there are far fewer institutions which need, or would be eligible to receive, these net worth certificates from the FDIC than from the FSLIC. If I were to guess, in the range of three dozen or perhaps a few more might be eligible for FDIC assistance, whereas that number might well be in the hundreds of institutions which would be eligible to receive capital assistance from the FSLIC.

But I think this is a matter that I would like to review very carefully when I become a member of the Bank Board, and at that time

I will certainly talk to my colleagues on the Board and to members of the staff as a part of that review.

The CHAIRMAN. In your testimony you made several references to the new legislation restructuring the financial services industry and you also felt that it would give the thrifts an opportunity to be more liquid and more profitable so they could once again get back into their commitment to mortgage lending.

We've heard a great deal of the opposite through the whole process and since the bill has been passed. We continue to hear from those who say that this is the end of the thrifts' role in mortgage lending.

Could you expand on those statements, why you feel that it is helpful to them even though it does give them some additional authorities that are not in the realm of mortgage lending?

Mr. GRAY. Well, I think the powers granted in the Garn-St Germain bill which involved other areas—such as commercial lending and equipment leasing—are, as I have said, rather limited in nature. They certainly do provide institutions a choice. I don't really know how many institutions are prepared to get into those additional areas, even of a limited nature, but I think the expertise that thrift institutions have brought to housing finance over these many years, the talents that exist in these institutions to continue to meet that traditional commitment, the effects of section 593 on the bad debt reserve and the incentive for thrift institutions to continue to invest in housing—all will continue to combine to provide a healthy appreciation for, and substantial activity in, housing finance.

Even the mortgage deduction that homeowners in this country enjoy, and the whole thrust of public policy toward housing through the years, I think, are reflected generally in the thinking of savings and loan people across the country.

So I see no great problem in that area myself and I have expressed that many, many times in the past.

The CHAIRMAN. Do you think that in the making of mortgage loans they will keep many of them themselves or send their originations to Freddie Mac and Fannie Mae?

Mr. GRAY. Well, I think much of the industry already is involved in the secondary market. I can tell you that our association is one of the largest institutions in terms of involvement in the secondary market. I think that is an excellent way to continue to turn over funds for investment in housing and I would hope that in the future additional ways would be developed to open up markets and to expand—I'm talking about primary markets and the credit markets generally—as well as in the secondary market.

I think the secondary market has played and continues to play a very, very important role in financing of housing in this country.

The CHAIRMAN. As you well know, over the last couple years we have had literally hundreds of thrift institutions merge into others and in the past 15 months we have had several large savings and loans that have been established, some of them on an interstate basis, due to the troubled institutions procedures they go through to save and protect the depositors.

What effect do you think these very large thrifts will have on the structure of the industry and really what I'm getting at is as we

see more of this what future is there for the small S&L's? I've always been particularly concerned I suppose coming from a relatively small, rural State with a lot of small banks and savings and loans. What do you think the future is for the small ones? How do they survive? How do they stay viable in light of all these mergers into larger units?

Mr. GRAY. Well, I believe that probably most of the mergers which have occurred—and I'm talking about in-State mergers—have been of a voluntary and nonsupervisory nature. I think that is the kind of management decision that smaller institutions—which wish to merge in order to improve their market penetration and in order to improve their strength, given the great number of thrift institutions in this country—can make and which is really a very healthy development.

Clearly, an institution which stays small does not necessarily benefit in a competitive sense from the same kind of size and market penetration that occurs in the case of a merger. On the other hand, I think the success of a thrift institution basically depends on its management, on the kind of talent that it has, and I think that if management chooses to keep an institution small and chooses to eschew mergers, that such an institution can make it but it's going to need very good people in order to do that.

The CHAIRMAN. Thrifts have been losing capital for two or three years and net worth as well. In the past two months the slide has essentially stopped. Obviously, interest rates are lower, but in large part I would suggest that this is due to the Bank Board changing accounting rules and that is directing the thrifts to include all of their appreciation of real estate in their capital and other similar assets as well.

What do you think the future of S&L's capital is and what do you think as a member of the Board you can do to promote capital formation?

Mr. GRAY. I'm not terribly familiar with that area. But I do think that some of the accounting rule changes that the Bank Board has instituted have been of help at a time when thrift institutions have been having problems with earnings. I think these changes have been a welcome development because it seems to me that a member of the Federal Home Loan Bank Board wants to see a satisfactory income stream maintained by an institution. This also has the indirect effect of reducing the impact on the FSLIC. It is the responsibility of members of the Bank Board to protect the safety and soundness of that fund.

There have been developments in recent weeks in which some institutions—mutual institutions seeking to convert to stock—will be able to obtain an infusion of capital in this way.

The CHAIRMAN. Do you think there's a future for the mutuals to retain capital or are they all going to rush to stock?

Mr. GRAY. No; I don't see them rushing to stock. I don't know how much of the conversion to stock process can be accommodated at any given time, but I think a trend toward conversion would be a healthy development. Most of the thrift institutions in the country are mutuals. To choose to remain a mutual is a management prerogative. At the institution where I work the decision has been

made that the time is not yet right to convert. The time may come when that institution will choose to do so.

But to be more responsive to your question, I think as the industry continues to regain health it will probably see a movement away from mutuality, in perhaps some limited degree—it would be impossible to speculate on the dimensions of such a movement—but I think the kind of infusion of capital that would result from it would have healthy benefits.

The CHAIRMAN. It may be unfair when you're just in the confirmation process and have not had the opportunity to get involved in Board deliberations on some of these, but with the homogenization process going on and institutions looking more like each other all the time, there's been a great deal of talk about really consolidating regulatory agencies.

Do you have any feelings at this point on consolidation of the regulators?

Mr. GRAY. I know the Vice President is undertaking a study with various regulators. I don't know very much about that study. I eagerly await it. I see no problem in this kind of review being undertaken.

In this regard I would point out to you, however, that from my experience as a thrift industry officer, I have personally seen, and many of my colleagues in the thrift industry have experienced the advantage of being able to work with a single agency as opposed to the banks which have to work for regulatory purposes, with the Fed, with the Comptroller of the Currency and with the FDIC. I think the single regulatory agency has served the thrift industry very well up to now. I want to keep an open mind. I will have to wait until I see the results of the study.

The CHAIRMAN. What about the merging of the three insurance funds that's under consideration now? In fact, the agencies themselves are considering that.

Mr. GRAY. I have really not been privy, Mr. Chairman, to any discussions that have gone on. I think it would be better for me to withhold any judgment and keep an open mind on that subject.

The CHAIRMAN. Senator Hecht.

Senator HECHT. Thank you, Mr. Chairman.

Mr. Gray, you mentioned in your opening remarks that you were deeply committed to housing and homeownership. Specifically, what do you propose to do on this Board?

Mr. GRAY. Well, I think the thrift institutions in this country traditionally have played an extremely important role in enabling more and more Americans to enjoy the fruits of homeownership. I will do everything that I can to try to assure as a regulator—obviously regulators are very limited in the degree to which they can affect economic policy as such because that is a matter for the Congress and the President—that thrifts continue their historic role in housing finance. As long as thrift institutions stay healthy, as long as this industry does stay viable, as I've already indicated, the industry, I believe, will continue to be heavily involved in housing finance for the reasons I outlined.

This is one of the things that I, as a member of the Federal Home Loan Bank Board, would make a priority. I think this will serve housing and the financing of housing.

Senator HECHT. Do you see the possibility of an equitable 30-year fixed rate mortgage returning to the marketplace or has it gone the way of the dinosaur?

Mr. GRAY. It has not gone the way of the dinosaur. Thirty-year fixed rate mortgages, I would assume, are available at most institutions. So are variable rate mortgages. Generally at this time the 30-year mortgage costs a little more. And, the American public has gotten used to the 30-year fixed rate mortgage. I see indications even at our institution that in many cases homebuyers would prefer, even though they would get a better rate with the variable rate, the 30-year mortgage, and 30-year mortgages continue to be purchased in the secondary market as well as variable rate mortgages.

So I see, at least in the immediate foreseeable future, thrift institutions continuing to offer a wide range of instruments in the mortgage area.

Senator HECHT. Last week the homebuilders were here and expressed the hope that if interest rates would drop another two points the industry could start going full force, start rehiring, and get our economy moving again.

Yesterday Mr. Sprinkel testified that there was a good possibility of interest rates dropping two points this year. Do you agree with that?

Mr. GRAY. Well, I have no way of predicting, and I wouldn't want to get into the business of trying to predict rates. That's a very risky enterprise. But I would hope that Mr. Sprinkel is right. That would be a very welcome development in 1983 and I would agree with the homebuilders that to the extent that interest rates do come down—whether it's two points, one point, or to whatever degree—this will be very healthy for housing, which already is leading the recovery. And even if they come down only 50 basis points, or to whatever degree, it will be a very healthy development for housing and I might say for the thrift industry too, Senator.

Senator HECHT. Thank you very much. No further questions, Mr. Chairman.

The CHAIRMAN. Mr. Gray, I have no additional questions. I would indicate to you, which you're probably familiar with—the lack of attendance at a confirmation hearing is a good sign. When we have a full house, that's when we know the nominee is in trouble, when the Senators are lined up to ask all sorts of questions. So the very lack of attendance should put a smile on your face and indicate to you that you will have no trouble being confirmed.

Mr. GRAY. I will take your word for it with great pleasure and I do have a smile on my face, yes.

The CHAIRMAN. Well, I personally think the President has made an excellent choice for the Board and I will certainly look forward to working with you as a member of the Board and thank you very much for coming today.

Mr. GRAY. Thank you very much, Mr. Chairman and Senator Hecht.

The CHAIRMAN. The committee is adjourned.

[Whereupon, at 11:45 a.m., the hearing was adjourned.]